Can the Family Farm Survive? The Decision Process Takes Over!

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Our American heritage in regard to agriculture has been dominated by the Jeffersonian principle that "small land holders are the most precious part of a state". American agriculture historically has been characterized by relatively small, family owned and operated farms. The family farm is an integral part of our culture.

But agriculture is going through a rapid and massive transformation. The fewer and larger farms are requiring more capital. Coupled with inflation, estate tax concerns are moving to the forefront. Farms are becoming more specialized and are highly dependent upon the nonfarm sector for inputs. The modern farm requires sophisticated and managerial skills.

Marketing channels have changed toward more concentration in response to competitive pressure and meeting the needs of a more urban society. And open markets are fading away posing an additional threat to land ownership and the huge financing needs are of growing concern. And the decision making role of farmers is changing--some would go so far as to say farmers have lost more of their decision making power than they like to admit.

These changes give rise to the continuing concern about "Who Will Control U. S. Agriculture?" The many programs--extension or research--that have or are being conducted like this conference "Can the Family Farm Survive?" is evidence of the continuing concern.

Before exploring the decision making process and some policy options, I would like to visualize and highlight a few points Breimyer made in his

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opening remarks.

Farms and Farm Size

The long term trend is toward fewer and larger farms. Whether it continues and at what rate is a part of the family farm policy issue. Since 1945 farm numbers shrank from 6 million to 2.7 million--a drop of 55 percent.[1/] Today the average size farm is nearly 400 acres; in 1950 farm size averaged a little over 200 acres. The greatest decline was in those farms of less than 180 acres; the number of farms with 500 acres or more increased significantly. But acres is not the way we classify farm size.

In 1977, the 510,000 larger commercial farmers or 19 percent of the total that annually sell over $40,000 of farm products per farm accounted for 78 percent of the total farm sales and had family inces that averaged $32,000.[2/] That places them in the higher income brackets of U. S. society. About $5000 of the total net family income of these families comes from non-farm sources like wives working off the farm, off-farm investments, or the farm operator working off the farm. Unless there are changes in policy these larger farms will increase in number and the owners will receive a larger share of the total value of farm production as they continue to gain control of additional resources. They will benefit from either higher prices and incomes or their neighbor's financial stress, or both, in the upcoming decade. As Breimyer indicates they are the most vulnerable over the long run to financial risks or conglomerate takeovers.

Over two-thirds of all farms have total farm product sales of under $20,000. These are small scale farms. They produced only 11 percent of the value of all farm products sold in 1977. The composition of this group is diverse. Some are completely dependent on their income from farming for family living; some use nonfarm earnings to supplement their farm incomes;

1/ USDA, Agricultural Statistics, 1977
2/ USDA, Farm Income Statistics, Statistical Bulletin No. 609, 1978

others work mainly off the farm. Some are retirement operations, others merely rural residences or hobby farms that sell sufficient quantities of farm products to qualify as a farm by census definition. Their total family income averaged nearly $16,000 in 1977. This compares favorably with the average income level of non-farm families. Their ownership equity is high and, thus, as a group they have a lot of "staying power." But, Breimyer and Rhodes indicate, and I concur, they are or will be vulnerable to a lack of markets.

The small scale farm is coming into heavy demand by people with city jobs wishing to supplement their income by farming or wanting to realize some non-economic objectives associated with part-time farming. Up to one-fifth or about 375,000 of these farms can be considered as poverty cases.[3/] They have too little land, too little capital, too little management know-how to produce a sufficient quantity of goods at any price to provide adequate farm income.

Farmers in 1977 selling $20,000 to $39,999 of farm products annually sold one eighth of all the farm products. Some are part-time farmers. Many are older and will forego expansion but will need to modernize their operations and practices. The younger people within this size farm will 1) either expand the scope of their farm operation and move into the larger commercial class, 2) quit farming, or 3) join the ranks of the part-time farmers and shift to more extensive farming operations.

Farm Structure

The organizational structure Breimyer presented included 1) smaller than family size, 2) family size, 3) larger than family size, and 4) non-proprietary. The non-proprietary category included cooperative farms, integrated and industrial type organizational patterns.

3/ Congressional Budget Office, a background paper on Public Policy and the Changing Structure of American Agriculture, 1978

In a recent Congressional Budget Office paper the farms were called 1) small scale farms, 2) family farms, 3) larger than family farms, and 4) industrialized farms.

Both definitions used hired labor as the basis for defining family farms. CBO used the USDA definitions that a family size farm uses less than 1.5 man years of hired labor.4/ Breimyer said not more than two years of family labor and not more than two years of hired labor.5/ We could "fuss the definitions" but that serves no useful purpose. The usefulness is in their similarity and some of the magnitudes.

Family farms in the CBO classification make up 90 percent or more of all the farms of which about 70 percent are small scale farms selling less than $20,000 annually. Part-time farmers are not so distinguishable but fall into both categories of family sized and small scale farms.

The larger than family sized farms (meaning more than 1.5 man years of hired labor) make up an estimated 4 to 8 percent of the total farm units. The industrialized farms (compares to Breimyer's non-proprietary type) make up 2 percent or less of the total.

Farm product sales as a percent of the total for each type farm is quite different. The industrialized and larger than family farms combined sold an estimated 35 to 45 percent of all farm products marketed in 1977.

Somewhere between 60 and 70 percent of all farm products sold originated from the family size small scale and part-time farms.

This perspective on the size of farms, income distribution and organizational structure has been summarized to help set the stage for a discussion of the policy options. This should assist in 1) the decision-making process, 2) determining what kind of farm structure is preferred, and 3) will help answer the question "Can the family farm survive?"

4/ Ibid

5/ Breimyer, Harold F., Can the Family Farm Survive?--The Problems and Issues, Paper no. 1978-26 delivered at the Perry Seminar, University of Missouri-Columbia, November 9, 1978

POLICY OPTIONS

If we want to design a policy to influence the structure of agriculture, we must deal with two basic and highly interrelated questions. The first question is "What structure is desired?" Stated differently "Does society prefer the small family farm, a few conglomerates or some mix between the extremes? The second is "What policy tools might best achieve the structure desired?" We shall address these issues and provide some implications of each choice.[6/]

A few limitations are in order. It is quite apparent there is too little research on farm structure. But in public policy issues there is usually a shortage of research. The great variation in farm size, type of farm, capital needs, crops produced, off-farm employment opportunities, and linkages with the non-farm sector compounds the problem.

Public policies can influence the structure of agriculture. But they must interact with determinants of farm structure from the private sector. The public and private forces are most often complementary. But they sometimes are conflicting and the objectives of public policy negated. The policies to influence the structure for U. S. agriculture to be suggested below are just that--suggested. No advocacy is intended.

Alternative Structures

Even with the strong trend toward fewer, larger and more specialized farms, it seems certain that the farm structure will continue to reflect for years to come the heterogenity that exists in U. S. agriculture. The choice is not between the extremes of many small farms or of a few non-proprietary type farms. The more realistic choice is between the different rates at which the heterogeneous farm sector will change in the next two, three or four decades.

6/ The policy options, tools and consequences utilize heavily the findings, of the Congressional Budget Office background paper Public Policy and the Changing Structure of American Agriculture, 1978

The policy options seem to fall into three broad categories. They are 1) continuing the present trend toward fewer and larger farms, 2) decelerate the trend, or 3) accelerate the current trend.

The choices between these alternatives will be made on the relative benefits or costs assigned to certain objectives. The objectives that people will weigh heavily include production efficiency, level of farm family income, food prices, impacts on rural communities and taxpayer costs. Some of these objectives are in conflict with others. Thus, we get into the emotional portion of the policy process in how and what tradeoffs will be made.

POLICY TOOLS

Policy tools to achieve the alternative structures discussed in this paper are neither exhaustive nor representative of a major break with past policies. The indicate the type of policy that might emerge if a particular structure is desired. There is no in-depth analysis.

Continue the Present Trend

The public policies to ensure continuation of the present trend are in place. Commodity programs would provide price supports on a cost of production basis and supplement low prices and incomes with deficiency payments. Price uncertainty would be reduced and benefits distributed in proportion to total output.

Export market expansion would continue through negotiation of reduced trade barriers and more long term trade agreements. The Farm Credit Administration would be expanded to meet the increasing credit needs of the larger farms. Preferential tax treatment on capital gains would be maintained. Anti-trust laws would be used to maintain reasonably competitive conditions which might involve prohibition of further acquisitions and mergers by the largest corporations or cooperatives.

Accelerate the Current Trend

The policies to accelerate the current trend or to move toward larger farms would be designed to reduce the cost of production and encourage a more closely coordinated market system. Modification of existing policies would be used to accomplish the objective of fewer and larger farms.

Commodity programs couls be used to reduce the risk of low farm prices and incomes. There would be no maximum government payment per farm. The level of price supports could be kept low enough to discourage small farm operators. Public research and information would be designed for large farms.

No special help would be provided small farmers through any agency including FmHA, extension service, etc. Higher minimum wages would encourage mechanization and farm growth. Favorable capital gains treatment would encourage farm consolidation. Coordination in the market system would be encouraged by government regulations, contracting or direct ownership. Industrialization and employment opportunities would be directed toward "growth centers" and away from prime farming areas.

Decelerate the Current Trend

Policies that decelerate the trend would require the greatest revisions from traditional policy. The changes would be designed to discourage the expansion of family-size farms into larger-than-family-size farms and to encourage larger farms to be subdivided.

Commodity program benefits could be targeted to small farms by gearing the larger payments to lower volume, to ownership patterns or to diversified farming operations. Another choice would be to eliminate commodity programs and provide direct income subsidies to poor farm people.

Liberal government credit could be used to reduce the cost of debt capital to small farms. Government purchase of land for lease on favorable terms to small operators might be enacted. Agribusiness firms could be prohibited from engaging in farming or using contracts. Farm inputs and products could be required to move through open markets.

Public research and information could be directed exclusively toward small farmers. Tax laws could be changed 1) to prohibit the use of farm losses to offset nonfarm income, 2) to increase the capital gains tax, and 3) eliminate investment tax credit. To retard farm size growth, a graduated property tax might be introduced. Government subsidies could be used to encourage the dispersion of industry to ensure farm people employment opportunities without leaving the farm.

CONSEQUENCES OF THE CHOICES

Some probable results of the options can be shown by comparing the consequences of slowing down or accelerating the current trend with the consequences of continuing the current trend. Using the option of continuing the current trend as a benchmark serves to highlight the nature and magnitude of the trade-offs among objectives.

Continuing the Current Trend

With continuation of the current trend we may have 1.5 to 1.6 million fams by the year 2000 according to a USDA projection. The aggressive farmers are likely to earn incomes comparable to those in the higher income levels in the non-farm sector. Efficient and competitive conditions in farming would be expected. Consumer food costs would remain near their current level as a percent of disposable income. Federal budget costs would vary from low to high depending upon yearly supply and demand conditions.

Slowing Down the Trend

Slowing down the current trend would result in slightly higher production costs. Total cash farm receipts would rise, but net farm income would fall due to a larger number of farms and more people on farms. The USDA estimate was for about 2 million farms by 2000. Retail food prices would be slightly higher. Economic activity in rural communities would be favorable with more people on farms with greater industrialization increasing off-farm employment opportunities. Dispersed ownership with small farms relying on their own labor might provide a more continuous food supply.

The policy tools described to accomplish this goal will require the most government intervention and the largest taxpayer outlay if income payments and programs to encourage rural development used to help small farms are funded. A USDA study showed large tax increases (double) to preserve the maximum number of farms.[7/] Choosing this option would provide more policy options in the future because it will be easier to consolidate small units than to break up large units.

Speed Up the Trend

Accelerating the current trend would lower per unit production costs. This would result in relatively lower farm prices. Total cash farm receipts would fall compared to continuation of the current trend. But average net farm income would rise. An increase in the average net farm income per farm could occur because of fewer farms. The total number of farms may be near 1 million farms if this alternative is selected.

Retail food prices could be lowered slightly. Lower farm prices could enhance farm exports and be helpful in our balance of payments problem. With greater concentration of production and farm worker unionization, consumers would be more likely to experience interruptions in their food supply.

Economic activity in rural communities would be reduced with fewer farms and less emphasis on rural development. Budget costs of implementing policies to accelerate the trend toward larger farms would not be great. But the reduced outlays to farming, might be replaced by substantial outlays to assist displaced farm people and distressed communities.

7/ USDA, Alternative Futures for U. S. Agriculture: A Progress Report

General Consequences

In general, public policy can influence the rate of change and farm structure. The differing consequences reflect the distribution of benefits and costs to consumers, farmers, rural residents and communities.

Accelerating the trends benefits farmers owning the largest farms and consumers in lowering food prices. Major costs are experienced by rural communities as farm receipts and farm employment declines and local economic activity contracts.

Reducing the rate of change stimulates rural communities but lowers farm income and increases food costs. Taxpayer costs would increase. Slowing down conflicts with efforts of farm families desiring to increase income through increasing the size of farm. The benefits and/or costs to consumers are minor; the major impacts are in the rural sector.

CONCLUSIONS

Can the family farm survive? Yes, because the structure of agriculture is changing slowly--though more rapidly than some realize--and there is sufficient time to act. But, enough people must decide soon that they want the relatively small family farm to survive and mount a campaign to secure the legislation necessary to ensure the "survivability" of the family farm. To suceed, a coalition of farm interests and representatives from the consumer and labor movements may be necessary.

Will the family farm survive? Not likely, though the demise may take decades. And the time factor is a major reason for the demise. There is no crisis and therefore the case for the family farm is hard to transmit to the political arena.

If a political campaign is mounted to slow the trend the conflicts and opposing forces within the agricultural sector will make passage difficult. Policy issues within agriculture are divisive: it pits farmer against farmer, neighbor against neighbor, region against region, and family size farmer against larger-than-family-sized farmer. The larger farmers understand and more effectively utilize political power. Politicians try to avoid issues matching farmer agains farmer.

In the final analysis, some blending of the policies discussed earlier seem likely. The policies probably will achieve a diverse farm structure--providing some help to the family farm and its survivability--without isolating farming from changes in the economy.